

**PX 44**

## Message

**From:** [REDACTED]@ripple.com]  
**Sent:** 11/24/2013 11:10:44 AM  
**To:** Phil Rapoport [Phil Rapoport <[REDACTED]@ripple.com>]  
**CC:** Arthur Britto [Arthur Britto <[REDACTED]@gmail.com>]; Chris Larsen [Chris Larsen <[REDACTED]@ripple.com>]; Patrick Griffin [Patrick Griffin <[REDACTED]@ripple.com>]  
**Subject:** Re: give-aways versus auctions and pump priming

[REDACTED] in agreement with Phil on all of the above. "Bond" may not really be the correct term as these instruments have a lot of "optionality" to them. I only used the bond word because its easy for many folks to grasp.

You could (alternately) sell outright options to purchase the same amounts of XRP to achieve the same theoretical outcome.... but that wouldn't actually take the XRP off of Ripple's books. The reason I called it a bond was simply to imply that the asset does move from our books to someone else's.... but I'm not fused about the names

And as for [REDACTED] -- I just meant to say "select someone with gravitas that can help market the structure". Its not 100% clear to me that we couldn't market these ourselves by talking directly to the powers that be. I just thought we might find someone who really wants to get out in front of this. Other options are [REDACTED] and [REDACTED] (especially the later). But my first preference would be for us to paint this in a more conventional (rather than a startup) manner....as I think we are closer to conventionality than a startup given the maturity of our concept (even though our company has only been around a short time).

But I'm already out of my depth on the above....

On Sun, Nov 24, 2013 at 9:16 AM, Phil Rapoport <[REDACTED]@ripple.com> wrote:

Hi guys,

I think [REDACTED] ideas seem excellent. I'm still thinking through the mechanics and digesting the potential market benefits/pitfalls.

The bond auction structure does seem to cleanly solve our self-imposed goal of getting XRP off our books without immediately flooding the market with XRP supply / price pressure.

I want to carefully consider all the other structured products that we can come up with that could accomplish the same goal. (Calling it a "bond" creates certain tax/regulatory implications.)

With regards to distribution/syndication of the financial products, we might be best served managing it in-house. The product we'd be selling is sufficiently complex and requires specific product knowledge.

To sell our "fully collateralized XRP bonds" would require expertise in explaining the Ripple protocol and math based currency. It's a lot to expect the [REDACTED] sales team to learn a totally new space, especially when this 1 deal probably won't directly affect their individual compensation that much. The corporate bond sales team might not be particularly adept at this...

We want a sales team that can target funds that specialize in thematic trades with convex payouts. People who buy "options" on big paydays. It's a certain type of investor DNA willing to swing for the fences as opposed to looking at "value" trades that will grind out a 5-10% return. There are groups within [REDACTED] that could help us with this; we just don't want to get pigeon holed with the "bond" group.

I'd like to think about it a bit more, and then I'll be more prepared to offer concrete ideas.

The "negative interchange" idea [REDACTED] presented seems pretty genius.

Phil

On Sun, Nov 24, 2013 at 10:28 AM, [REDACTED] <[REDACTED]@ripple.com> wrote:  
great to see all the feedback. Chris, I agree with your points and Arthur I agree with your suggestion about being "technically serious".

I definitely think that Ripple can and should (internally) build the system for initial distribution and secondary trading of the bonds (its in our DNA). My mention of an external agent like [REDACTED] / others was meant purely from a marketing point of view to get the word out to serious primary buyers of the instruments (in part because we can them be exempt from registration).

We might start with smallish test floats just to make sure that the mechanics of the system work end-to-end. Arthur is correct to suggest that a simple mechanism like smallish floats of bonds that have a 7 day maturation would make it easy to test the principles that would apply to longer bond maturities.

The real immediate challenge here is to garner the technical resources to get this built right given all the other competing demands for resources. I'm not close enough to our talent funnel on this front.

It sounds like Phil might be the right overall champion for this effort, though of course I'm happy to offer input. I'm familiar with the principles but no expert I must confess. At [REDACTED] we would say that this effort needs a full stack team (i.e. allocation of resources so that Phil or who ever runs it can have assurance that they can drive the effort forward without getting lost in dependancies on resources out of his control).

cheers,

[REDACTED]  
On Sat, Nov 23, 2013 at 5:39 PM, Arthur Britto <[REDACTED]@gmail.com> wrote:  
I'll spend sometime on the mechanics of bonds.

I'd like to suggest a milestone program for issuing tranches our bonds:

- X market cap
- X merchants
- X major merchants
- X countries with licensed gateways
- etc...

The idea being each of these milestones set a new level of valuation on XRP. If buyers were to know of the milestones for each tranche, then they might value them higher, as that limits the supply till the next milestone.

We should be technically serious about this. Let's do this aggressively, but with a caution that instill confidence.

- Let's have unit tests
- Let's have the client support bond trading

- Let's have a few test beta-distributions (bonds might mature in days)
- Let's have the first major distribution have wide participation

On Sat, Nov 23, 2013 at 3:37 PM, Chris Larsen <[REDACTED]@ripple.com> wrote:

Guys,

This is great. [REDACTED] Arthur - thanks for the detailed work and thoughts. I know Phil has had a similar plan for distribution. I believe this is definitely worthy of exploration and more discussion. Some thoughts and next steps:

- 1) As discussed, we should try to reach 30% float as soon as possible. However, as Arthur mentions and [REDACTED] agrees, not all of our target distribution needs to be channeled into a single program. We should test the market with an initial auction program for several billion first. We will learn a lot.
- 2) While these are securities for certain, if we are only engaging investment banks - we are clearly exempt from registration, so this is pretty straight forward. Let's discuss whether we need an investment bank to represent us or whether we can do the initial auction ourselves.
- 3) Phil - can you think about who we would want to participate here?
- 4) Bringing in cash for XRP is a smart play - the market is intensely focused on this asset and this would replace the need for an A round any time soon. This gives us enormous flexibility and RL would be secure for the foreseeable future, which would also add confidence to the market as users would know RL has the resources for a much larger, world class team for the long haul.

This is an idea we should pursue aggressively.

**CHRIS LARSEN | CEO**

**Ripple Labs Inc.**

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On Sat, Nov 23, 2013 at 8:48 AM, [REDACTED] <[REDACTED]@ripple.com> wrote:  
gday Arthur,

ty for the comments. Let me reply with some top line observations:

-- I'm not pushing for any particular time frame here at all. Whether we do auctions, issue XRP back on purchases, or give-aways -- the pace of this is all to be determined (not pre-determined). Its really just what the market will bear and I don't have any gut sense on that point. We determine the pace on any and all of this. I don't mean to suggest otherwise

-- Giveaways are fine (to charities or others) IF they don't get gamed or create extra uncertainty in the markets. My only general observation is that its often harder to (fairly) give things away because giveaways are a non-market mechanism for distributing scarce resources. The challenge is that whenever people get something for nothing, you draw all scammers into the fold. Market mechanisms auto correct for this.

I'll address the other points in-flow below:

On Sat, Nov 23, 2013 at 12:19 AM, Arthur Britto <[REDACTED]@gmail.com> wrote:

Overall, I like the bond idea. I think the suggested rate is irresponsible. This conflates charity with poorly run giveaways. This begs the question in many places. I like combining the mainstreaming strategy incentives with the legacy payment rails.

Detailed comments interspersed.

On Thu, Nov 21, 2013 at 5:20 AM, [REDACTED]@ripple.com> wrote:

What's the alternative? My suggestion is to think and act like a central bank -- specifically with regards to how the Treasury finances public debt: T-bill auctions. You might ask "why? -- we are debt free -- why would we be selling bonds?"

Great idea. Bond instruments are a part of my original Ripple presentation.

In the next year, we might auction off whatever goal that we set (i.e. maybe a billion a week for 52 weeks).

Distributing 52% of the XRP in 1 year limits us. In ten years we might have thousands of times more leverage.

again, I don't have a target for how much to distribute. What I am focused on is showing the market that we have judicious tools and policies for distribution. There is no implicit pace that I'm suggesting here. I don't know what the right rate is. We'll learn as we go through market feedback. My point is that market mechanisms are better for market feedback than straight up giveaways which can be market distorting. You can do giveaways (just like the government does handouts), but it's problematic to rely on non-market versus market mechanism to foster efficient markets.

And we get this asset (and the overhang problem) off of Ripple Labs books and into the marketplace where it belongs.

This is a lovely problem to have. Ripple Labs doesn't want it? Give it to me.

Giving it to you (or anyone) only magnifies the problem. Only markets, rather than private actors, can solve market overhangs.

It is poor to consider this asset a problem to get rid of. Ripple Labs should leverage this asset.

One of the biggest problems we've faced perception wise is people saying: they don't have a problem, but, they fear what other people will say. This is in regards to the "pre-mine." This is fear of a fear. And despite that XRP has a market cap of over \$1 billion. So, much for their fears.

\$1B is all relative. It's a great feat, but you are never sure whether that feat reflects our fundamental technology opportunity or the particular distribution strategy we have and are executing. It's all conflated together. We can't get too fat and happy congratulating ourselves for the good progress already made.

Vs the fed who doesn't divest themselves.

We just have to run the auctions and let the market determine what discount/premium they want to put on the future availability (over a timed period of release) of XRP into the marketplace. I can tell you that there are more than a few entities that would find it a revolutionary opportunity to offer T-Bill like auctions of a non-sovereign, non-corporate bond/option instrument.

I'm for this.

Such auctions could i) happen over a relatively short period of time -- even though the maturities are over a longer period of time; and ii) reduce a huge amount of uncertainty in the marketplace once the securities are placed with others rather than sat on by ourselves. The second point achieves what Bitcoin already does (and has as an advantage) -- a known rate of availability. I.e. once we've rid ourselves of the giveaway stash, the market no longer has uncertainty about a "give-away overhang"

Oddly, the fed doesn't layout their plans for long the future and they have an unlimited supply - an unlimited overhang.

An unlimited supply is not the same as an unlimited overhang. Furthermore, the dynamics of public and private sector actors cannot be conflated. The Fed is a creation of a public sector process (i.e. created by Congress) and has a public mission that is now (relatively) independent of the government. It has a governance structure that is distinctly different than that of a private company. Its a different trust dynamic of public versus private stewardship. That gives them a position of trust and authority that Ripple Labs cannot simply lay claim to.

Yes, there would still be the portions of XRP held by founders and Ripple labs to pay for the development of the protocol. But these balances would already be "priced in" at the time of the auctions. They would not be problematic as they would be proportionate and assumed to be in "rational hands". The overhang of a giveaway (at a zero price and with potentially disastrous implications for liquidity and price effects) would be eliminated.

You argue that that Ripple Labs is both rational and irrational here.

Its not about rational versus irrational, its about market versus non-market mechanisms. I realize that we are attempting the policy of "40 acres and a mule" as a benevolent strategy that shouldn't hurt anyone. But distributions of a pie (even a free pie) have winners and losers. Just ask the native americans whose loss was the gain of those who got their 40 acres and a mule. In a distributive exchange society, there are always winners and losers. Markets allow that too of course, but they do so with an invisible hand, whereas our giveaways constitute a very visible hand.

Its easier, methinks, to simply give some of our proceeds from true market auctions, directly to charities if we don't want to distort the marketplace for XRP. That may sound harsh, but I think we could do more for the world and charity with direct giving rather than distorting giveaways (that get gamed anyways). So I want to be very clear here -- I'm willing to be as charitable as the next guy re: charity and causes -- I'm just observing that "XRP giveaways" are a terrible way for us to show that benevolence.

Giveaways to charities and gamable giveaways are distinct.

There's explicit gaming and then implicit issues of equity. Having worked in many challenged societies (like India and Indonesia) where governments often do giveaways, one can see the slumlord justice in full play. Giveaways often distort and destroy market incentives and create a "give a man a fish" rather than a "teach a man to fish" dynamic.

Again, I'm not against giveaways -- but I view market mechanism as the primary drivers of our building a credible market for digital currency

Let me put this another way: we need to mimic something else that Bitcoin has well achieved: certainty of distribution.

Why?

uncertainty is "priced" into decisions. The biggest challenge Ripple has on this front is that our current structure looks a lot like "pump and dump" or a ponzi scheme. An asset price is inflating through the dynamics of supply and demand, and we (both the company and individuals) have a material supply of the asset class. That creates the risk of dumping and in particular of trading on inside information.

All of that makes us i) less credible; and ii) exposed to liability re: insider trading. Bitcoin is (currently) superior in both these regards -- though it is inferior in many others

The problem for us (which Bitcoin already solved) is that we have not (yet) solved our distribution quandary with a market solution.

I think the mainstreaming plan is excellent.

Bitcoin has because creation and distribution are both rolled into one. Yes, its inefficient to create/distribute by mining, but at least its certain (well ok, who gets the next created bitcoins is random, but predictably random overall in the macro context). That's key -- and we (Ripple) have underestimated the value/wisdom of that aspect of Bitcoin.

Value to who?

Value as measured in credibility and acceptance. Again, Bitcoin has many other inferior aspects, but we do need to recognize where Bitcoin is succeeding relative to other digital assets.

Unless we solve the distribution issue (fairly promptly) our thinking will always be clouded by concerns over keeping the speculators happy and not tanking the XRP price with new giveaways that run the risk of harming recipients of past giveaways.

Our fiduciary duty is to our shareholders not speculators. If we didn't want to work, we should find other pursuits.

My point is the same for shareholders. A weak point of ours is the conflation of our shareholders and speculator interests in our business model. With Ripple Payments we can likely diversify and reduce the perception of conflation by outsiders.

My point is that only markets (i.e. auctions) will solve this conundrum.

There is no conundrum.

There is a credibility conundrum. Its not stopping us dead in our tracks, but it is a drag on our ability to catch Bitcoin and move beyond it and other alternatives and earn our potential positioning as the core protocol for exchange of value in the world. The opportunity is there before us, and my point is that we are more likely to get there through primary reliance on market versus non-market mechanisms (though again I am not ruling out non-market mechanisms)

The Fed/Treasury well knows this and the system works not just for the US but for the whole world.

There is no certainty with their system except that they will debase the dollar.

Debasement is a relative term. Inflation is not debasement. Inflation is useful (just ask Japan which has suffered the effects of deflation). Deflationary currencies have advantages but also severe

disadvantages. We need to be cognizant that inflationary currencies are often associated with recessions, but deflationary currencies are linked to depressions. Both can cause the breakdown of society.

My point is that we don't need to make assumptions about the superiority or inferiority of inflationary versus deflationary mechanisms.

We can get away with it because we are math based currency and folks don't have to trust us -- they just have to trust math (and they already do).

There is nothing to get away with.

We don't get away with it if confidence is not maintained. That is the lesson from the Fed. It gets abused by many quarters, but when the shit hits the fan, all the worlds liquidity and reserves rush to the Fed. It is the most trusted (untrusted) entity in the world. Ideally, we should strive for that position re: digital value systems.

The reason it seems like they still have to trust us (for now) is because we control too much of an overhang. We need to get out from underneath that overhang without flooding the market with immediately spendable currency.

No we don't. With next to know success the market says XRP is worth over \$1 billion with current uncertainty built in. With a steady hand the uncertainty will evaporate. We can build trust by continually acting responsibly.

The steadiest hand is the hand of the market. We don't have a crystal ball. Neither does the market, but the market at least has an invisible hand (even if it is an imperfect hand). The challenge for us is that are hand is not only uncertain, but non-market mechanisms are inherently seen by have-nots as unfair. I'm not arguing that markets are inherently fair -- but the party that determines outcomes is not a private party.

But its easy to do that if we sell off the currency reserve with lockups that preclude the market from being flooded. Our yield curve will reflect (just like for stocks of a public company that have staggered lock up expirations) a continuum out for as many as 10 years (on a staggered basis) of created and distributed money now being in circulation. Folks knowing that money is out there (even if its locked up) balances the need for having a currency for speculation, with the need to also have XRP act as a universal joint for swapping between value pairs on a universal basis.

This horrible and grossly to the advantage of early actors and to the disadvantage of Ripple Labs shareholders.

That's a presumption that you already know how the market is going to turn out. And that's just not fair. If you really know that the market is going to go up, then you and others who believe the same would simply buy up the auction lots and net the benefit that would otherwise go to others. You would "double down" and buy up all the other float in the marketplace.

Your assumption ignores the risk that things may happen that we are unaware of and it may behoove us to have non-XRP money in the bank (and a lot of it) to weather unforeseen storms.

Again, I'm not saying what the pace of auctions should be. I am saying that our current positioning is undiversified because we are over concentrated in an asset class: XRP. That is never healthy from a risk management position.

The market will "absorb" the fact that the 100 Billion XRP are already in play even if there is a continuum of lockups expiring. They already do this with the 90% of Twitter shares that are locked up with only 10% floating. Its unlikely that there will be a cliff in 6 months because its already priced in. Its not opaque.

We have to achieve the same transparency.

No we don't. Our current valuation proves that we don't.

Our current valuation doesn't "prove" anything. It is what it is and it represents future expectations -- that's all. You can't tie it to any particular thing. It represents everything people expect us to do in the future. You/we can't pre-assume what that will be. Its our leadership responsibility to figure out what that should be.

Giveaways achieve just the opposite of transparency. Though well meaning, they are opaque because folks feel like we are flying a plane across the sky and throwing money out the window. It makes us look like flakes (and of course its even worse when we get hacked or give money to anonymous users).

You're coloring all giveaways with the same brush. Its possible to do giveaways sensibly.

We can certainly do them more sensibly as regards scammers and insider trading. I am saying we also need to be aware of the reputational and economic implications of reliance on non-market distribution strategies. I'm all for charity -- I just don't want it to happen at the expense of market dynamics. You won't see me objecting to giving the proceeds away of an auction to achieve the same "social transfer" as an XRP giveaway. I'm just saying that we could achieve social benefit and better XRP distribution with market mechanisms

... mainstreaming strategy with credit card integration ...

I agree.

My suggestion is that we combine the thinking of central banks and payments networks/infrastructure/S&H green stamps to rapidly remove the risk and uncertainty around how we are going to distribute our XRP overhang.

A working large scale distribution eliminates uncertainty. This is how we can still not be in a rush to squanders the companies assets through premature disbursement.

If we want to be charitable, lets do that with left over monies that we want to spend on good causes rather than disrupting market dynamics by doing something for "free" at the very time we are trying to build a "value" exchange network. Giving things away free at the same time we are trying to create a value based market mechanism is, I'm afraid to say, stupid! One's heart may be in the right place (wanting to do good) but the distortion causes more harm than good and makes us look like a bunch of rank amateurs.

Charity doesn't have to be a screw up. You're conflating poor giveaways and charity.

If we can make the currency worth hundreds of times more, then we do hundreds of times more with it.

we aren't disagreeing over that. Again, I don't have any pre-set time frame or assumption about what we give out versus hold back (remember, I've always talked about a stabalization fund, which implies a large reserve... so none of that is consistent with too fast a distribution).

Earmark how much of what we make for charity -- I'm all for that -- but don't do it with XRP giveaways that muck the very market we are trying to validate and propagate.

We don't need to earmark anything. We can learn as we go. I'm all for charity after we increase the value substantially.

We've got the best idea and infrastructure about money in the history of man. That doesn't mean we should get in a plane, fly overhead, and throw money out the window. That's just an embarrassment that turns the strides we've made into a temporary lottery that disproportionately benefits a few folks that are lucky or game the system. Lets not do that.

Yes.

I am highly confident that we can be done with the entire XRP overhang in one year

I hope not.

-- and do so responsibly

I think not to our shareholders.

Again, if we don't like the price we are getting for the amount distributed, we just turn the tap down or off. If its too much too fast, its too much too fast regardless of whether we are doing cash back, auctions, or giveaways.

I'm just offering the fact that the market best understands market mechanisms. Its not the only thing the market understands -- but its the easiest and most transparent.

and in a way that cements our position as *both* a value store (competitive with Bitcoin) and a payments and fx rail (muscling on the payments and remittance/fx networks of the world). We can become money (i.e. the wallet and the vault) for day-to-day people, merchants, and institutions. It can be done. It should be done. And no one can do it better than us.

If we're so good, imagine what we could do if we didn't insist on divesting ourselves of our assets in a year.

Again, I'm not fussed on what the target is. Chris has a gut of 30%. I'm just taking that as a gut starting point. Its a swag, but its a starting point.

This should be our strategy and we should execute it with haste and with confidence.

No. Let's not execute with haste. Let's be deliberate.

That's why I'm laying this out. I hope I'm being deliberate!

Like Sun Tzu: let's leave last but arrive first through having the better strategy.

This needs further discussion.

But of course. This is but the start.

cheers,

Cheers,

-Arthur